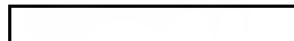


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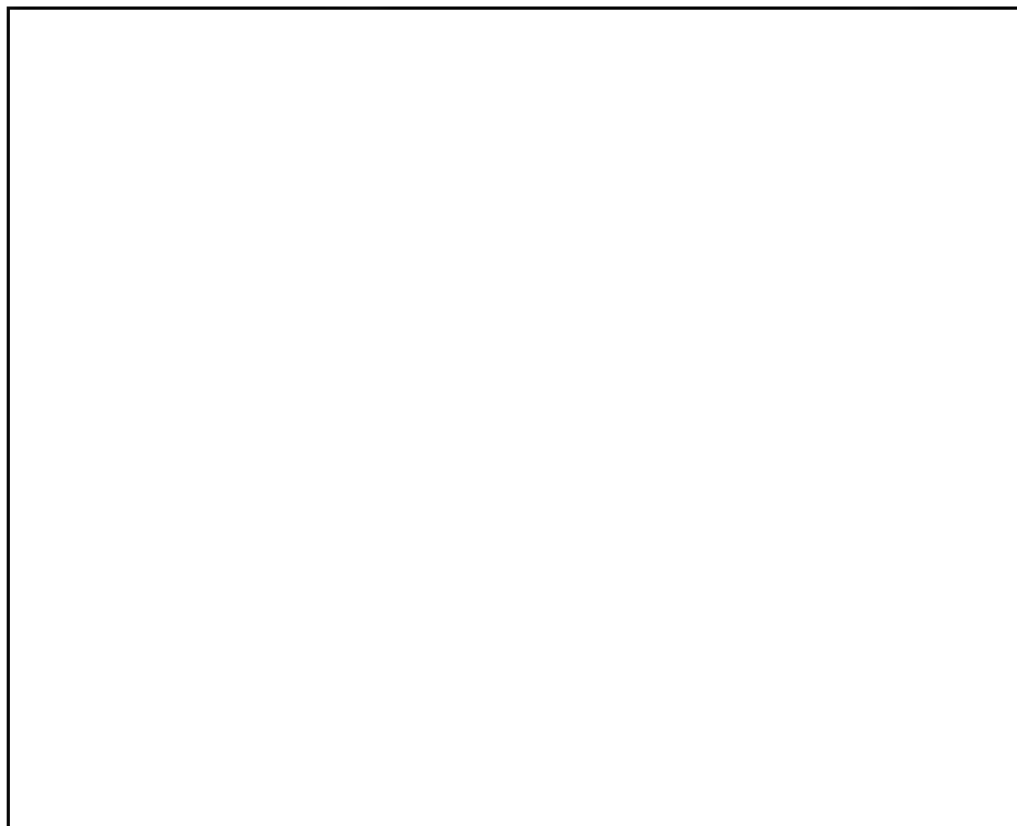
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OFFICE OF CURRENT INTELLIGENCE
CENTRAL INTELLIGENCE AGENCY

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DIA and DOS review(s) completed.

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1. USSR ANNOUNCES FURTHER REDUCTION OF FORCES

Comment on:

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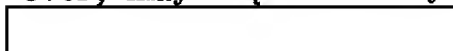
The Soviet Union announced on 6 January that its armed forces will be further reduced by 300,000 men, with 41,000 to be withdrawn from East Germany and 17,000 from Hungary. By announcing a unilateral cut, Moscow hopes to contrast its "peaceful outlook" with efforts to strengthen the Western military posture, and thus foster the impression--particularly in Western Europe--that steps to enhance NATO's military potential are unnecessary.

Since May 1955, the Soviet Union has announced it would cut military manpower by about 1.8 million men. While these cuts were not confirmed, there were indications that some reduction of force was completed. Current Soviet strength, including security forces, is estimated about 4.6 million.

Khrushchev has said that the USSR's scientific advances have created conditions favorable for the cuts. A Supreme Soviet decree on 21 December, moreover, explicitly called for maintaining the armed forces at a proper level to ensure the defense interests of the Soviet Union. Since Soviet military expenditures for 1958 are estimated at roughly the same level as for the previous three years, a reduction of forces would indicate increased emphasis on other phases of the military program.

The reductions to be made in East Germany and Hungary would not affect Soviet security interests in those countries. Presently the USSR has 380,000 personnel in East Germany and about 70,000 in Hungary. Reductions there, however, may be particularly effective for propaganda purposes.

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2. USSR REOPENS POSSIBILITY OF ASWAN DAM AID OFFER

Comment on:

Moscow is endeavoring to keep alive Egyptian hopes for Soviet economic assistance on the Aswan high dam.

This may be a bargaining tactic for the impending negotiations to implement the 19 November Soviet-Egyptian credit agreement. Ambassador Thompson suggests it may also be a hint to Nasir that his present flirtation with the West is undesirable and that continued reliance on the Soviet bloc will pay off with even bigger dividends.

The Soviet foreign affairs journal New Times on 26 December published an article on the advantages of the Aswan dam project advising that Cairo could rely on "disinterested aid of friendly countries, the Soviet Union among them." The article warned that "aid from Western countries is not to be reckoned on."

Over the past year and a half, the USSR has been reluctant to become involved in Aswan and has minimized the advantages of the dam, while advising Egypt to concentrate on small-industry development. Soviet economic assistance under the 19 November credit agreement will be devoted primarily to shorter range projects which will produce more immediate political impact.

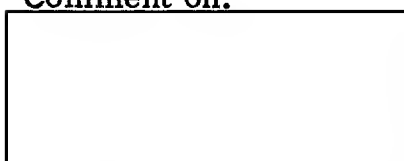
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3. TOP-LEVEL EAST GERMAN LEADERS OPPOSE ULBRICHT

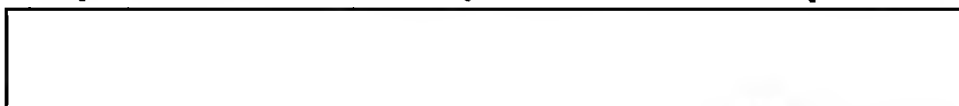
Comment on:

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Top-level East German Communist leaders are banding together for a showdown with First Secretary Ulbricht at the Socialist Unity party's (SED) 35th central committee plenum this month in an attempt to force him to modify certain of his hard policies.

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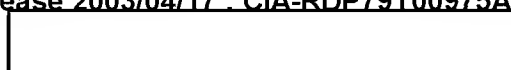
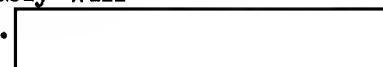
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Most of them tried last year to divert Ulbricht from what they considered his unrealistic economic policies of concentrating on basic industries at the expense of consumer goods production and exporting to the Soviet Union to the detriment of profitable trade elsewhere.

the consolidation of opposition to Ulbricht was precipitated by Party Secretary Ziller's suicide in mid-December, after an argument with Ulbricht over consumer goods failures. The opposition may also be trying to forestall appointment of more of Ulbricht's supporters to the secretariat. Ulbricht may be forced to make some concessions, but the Soviet Union probably will support him to ensure his continued dominant position.

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4. INDONESIA SEEKING LARGE QUANTITIES OF MILITARY EQUIPMENT IN EASTERN EUROPE

Comment on:

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The Indonesian arms purchasing mission now in Eastern Europe is interested in obtaining large quantities of equipment for all three services from Yugoslavia, Czechoslovakia, and Poland, [REDACTED]

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[REDACTED] The air force wants 114 Soviet aircraft, including MIG fighters, IL-14 and IL-28 bombers and transports, and helicopters and trainers. The army is seeking heavy infantry weapons and light artillery, and the navy wants a destroyer, a submarine, frigates, and a variety of small vessels. The Indonesians also want ammunition and spare parts, with delivery to begin 90 days after purchase.

A shipment of Soviet jeeps, contracted for approximately a year ago, arrived in Indonesia on 4 January, bringing to about 1,700 the number of Soviet jeeps delivered out of 4,000 purchased.

Foreign Minister Subandrio has publicly reiterated that Indonesia does not intend to purchase Soviet arms if there is an "alternative source," and the purchasing mission is scheduled to visit a few Western countries. All indications, however, are that the Indonesians anticipate making most of their purchases in the bloc and in Yugoslavia. While the Indonesians need replacements, the type of equipment sought would contribute to a capability for an attack on West Irian. [REDACTED]

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5. INDONESIAN DISSIDENT LEADERS MEET IN CENTRAL SUMATRA

Comment on:

[REDACTED] [REDACTED]

[REDACTED] Sumatra does not want to break completely with Djakarta but "will not tolerate additional Communist moves" during Sukarno's absence.

Sumatran leaders may be contemplating the application of additional economic pressures on Djakarta. Such measures probably would involve foreign companies, including oil firms, which have continued to pay taxes to and share profits with the central government. Sumatran leaders may believe that in view of the anti-Dutch campaign in Java, they can persuade these companies to divert funds and services to provincial governments.

[REDACTED] "additional Communist moves" which could prompt new Sumatran counter-measures. The Communists are unlikely to make any drastic move during Sukarno's absence. [REDACTED]

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**7. GREEK PREMIER NOW CONVINCED OF NEED FOR
AGREEMENT WITH TURKEY OVER CYPRUS**

Comment on:

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Prime Minister Karamanlis returned from the NATO conference in Paris convinced that an understanding with Turkey is a prerequisite to any solution of the

Cyprus problem but dispirited by the apparent hopelessness of overcoming Turkish resistance. Karamanlis now sees Turkish hostility as "genuine, emotional and widespread" and impossible of mollification by outside pressure. Consequently, he no longer believes that appeals to the United Nations, diplomatic pressure on London, or merely waiting for the Labor party to assume power in Britain will result in a settlement of the issue.

Greek leaders had long tended to disregard official Turkish statements on Cyprus, believing them to be either British-inspired or issued as maneuvers in the internal politics of Turkey. Turkish leaders remain firm in their demands for retaining the status quo on Cyprus or partitioning the island. While some Greek and Greek Cypriot leaders who demanded immediate self-determination now are willing to accept self-government with eventual self-determination not precluded, none could retain his political support if he accepted the Turkish position. Karamanlis, however, now seems to realize that an agreement with Ankara is necessary and that attacks on Turkey by Greek and Cypriot leaders and in the Greek press contribute substantially to making such agreement virtually impossible.

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8. WEST EUROPEAN REACTIONS TO RAPACKI PLAN

Comment on:

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Preliminary official reactions from France, Belgium, and Luxembourg to Polish Foreign Minister Rapacki's plan for an atom-free zone in central Europe tend to emphasize the political and military impracticability of the plan. Most officials believe, however, a reply must not be entirely negative because of public interest in renewed East-West negotiations.

Both French Premier Gaillard and Foreign Minister Pineau have publicly taken a negative line on Rapacki's proposals; the French ambassador in Warsaw has been instructed to reject the plan "firmly." The Foreign Ministry's director of European affairs, Jean Laloy, believes, however, that from the standpoint of French public opinion, the premier's reply was "too abrupt." Laloy had indicated in December that the idea of a "thinned-out zone" in central Europe advocated by French disarmament expert Jules Moch was gaining headway in France as well as in Germany and Britain. He is concerned that Britain may not go along with the negative French response to the Rapacki suggestion.

Belgian Foreign Minister Victor Larock, in a public statement on 3 January, characterized the Rapacki proposal as "interesting, but imprecise and too limited." He reiterated Belgium's support of international control and inspection mechanisms as the proper basis for a disarmament agreement. A spokesman for the Luxembourg Foreign Ministry has stated that Western Europe could not agree to a 3,000-mile withdrawal of American troops while Soviet troops remained 300 miles away.

9. BRITISH APPROACHES ON GERMAN SUPPORT COST PAYMENTS

Comment on:

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Prime Minister Macmillan evidently believes the United States holds the key to Bonn's continued defrayment after March of the Deutsche mark

costs of maintaining British troops in Germany. A draft letter to President Eisenhower urges that, if UK-German negotiations are resumed at the request of NATO, the United States tell the Federal Republic that it will not seek further support cost payments for American forces. This would make it easier for the Germans to comply with the British request. A parallel letter is being sent to Chancellor Adenauer asking his cooperation toward resolving the dispute.

Britain seeks the equivalent of \$140,000,000 in support of its forces. So far Bonn has only offered to advance payments on other normal transactions, but London has rejected this offer. London is probably hoping that its veiled threat to reduce its forces still further than now planned will induce other European NATO members to press Bonn and Washington to find a compromise.

Three Spaak-appointed financial experts will report to the North Atlantic Council on 8 January that Britain's currency difficulties entitle it to request NAC discussion of the problem. London, which asserts it needs to settle the dispute by mid-January to meet budget planning needs, expects the NAC to urge resumption of British-German negotiations.

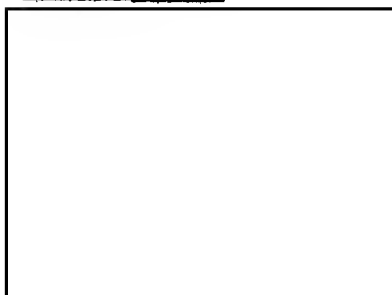
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10. VENEZUELAN SITUATION

Comment on:

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Venezuelan Government reprisals following the abortive 1-2 January military revolt might touch off further violence. The government's uncertainty over the loyalty of the armed forces is indicated by extensive arrests among the military. In the first active civilian opposition to

President Perez since the revolt began, a number of newspapers in Caracas have either suspended publication briefly or otherwise defied a government order to print condemnations of the revolt. At least two prominent newspapermen, including the editor of the Catholic church organ, have been arrested.

Official measures against the church, already at odds with the government, could draw the hierarchy into open support of the opposition and have a perceptible effect on participation of civilian elements in future opposition. In addition to the Catholic editor, five other priests have been arrested, and [redacted] the archbishop primate has been advised to remain in his palace.

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